

Arkansas' Wealthiest 1% Receive Majority of Capital Gains and Dividends Tax Cuts

Presidential candidates, reporters and pundits have lately perpetuated the myth that the middle class benefits from tax cuts for capital gains and dividends. But a new Citizens for Tax Justice analysis shows that both in Arkansas and nationwide, low- and middle-income taxpayers receive only a tiny fraction of the overall benefits, while the wealthiest 1% enjoy the lion's share.

Capital Gains and Dividends Tax Cuts are Unequally Distributed

The following table shows the projected impact on Arkansas taxpayers, in 2009, of the Bush tax cuts for capital gains and dividends. As can be seen below, the wealthiest 1% of Arkansas residents, with an average income of \$960,500, will get 78.3 percent of the tax cuts that go to Arkansas, with an average tax cut of \$27,269, in 2009. In contrast, the poorest sixty percent of Arkansas residents, with average incomes of \$21,500, would get an average tax cut of just \$4 in 2009. That's just 0.7 percent of the total tax cut going to Arkansas.

Bush Tax Cuts for Capital Gains and Dividends in Arkansas

| Income group | Income Range | | Ave. 2009 Income | Average tax cuts | |
|-----------------------------|--------------|-----------|------------------|------------------|-------------------|
| | | | | 2009 | % of tax cut 2009 |
| Lowest 20% | Less than | \$ 14,000 | \$ 9,100 | \$ -0 | 0.0% |
| Second 20% | 14,000 | 27,000 | 20,300 | -2 | 0.1% |
| Middle 20% | 27,000 | 44,000 | 35,000 | -10 | 0.6% |
| Fourth 20% | 44,000 | 69,000 | 57,000 | -73 | 4.2% |
| Next 15% | 69,000 | 148,000 | 96,100 | -158 | 6.8% |
| Next 4% | 148,000 | 365,000 | 193,200 | -849 | 10.0% |
| Top 1% | 365,000 | or more | 960,500 | -27,269 | 78.3% |
| ALL | | | \$ 55,300 | \$ -343 | 100.0% |
| Addendum: Bottom 60% | Less than | \$ 44,000 | \$ 21,500 | \$ -4 | 0.7% |

Source: Institute on Taxation and Economic Policy Tax Model, May 2008

Rhetoric and Reality

Despite this shockingly unequal distribution of benefits, Presidential candidate John McCain recently insisted on ABC's "This Week" that these cuts should not be allowed to expire because "100 million people have investments." The reality is that most stock owned by middle-income people is in 401(k) plans, Individual Retirement Accounts (IRAs) or other similar retirement savings vehicles. The taxes on these investments are deferred until retirement, at which point they are taxed as "ordinary income," meaning they don't benefit from the tax cuts for capital gains and dividends. "These cuts have nothing to do with the average family's savings or investments, and everything to do with reducing taxes for wealthy investors," said CTJ Director Bob McIntyre.

Capital Gains and Dividends Taxed Much Less Than Ordinary Income

When George W. Bush came to the White House, dividends were taxed as ordinary income (which for the wealthiest meant a top marginal rate of 39.6 percent at that time). The top tax rate for capital gains had recently been lowered from 28 percent to 20 percent. In 2003, President Bush and his allies in Congress lowered the top tax rate for both capital gains and corporate stock dividends to 15 percent. This is less than half the top rate wealthy individuals pay on ordinary income.

The Bush tax cuts for capital gains and dividends will expire after 2010. "There should be no question that the primary result of these tax cuts is to shower our nation's wealthiest residents with immense tax benefits," said McIntyre. "Lower- and middle-income families will see very little benefit from continuing these cuts, though they will be forced to deal with the mounting deficit that irresponsible policies such as these have helped create."

For the complete 50 state report, please visit <http://www.ctj.org/pdf/capgainsdivtaxcuts.pdf>